

# Public Consultation on the preparation of a new Communication on Raw Materials

## QUESTIONS

### POLICY AREA: DEFINING CRITICAL RAW MATERIALS

Major issues:

An expert group, chaired by Enterprise and Industry DG, recently released a report and presented a methodology to measure the criticality of raw materials at EU level. A raw material is labeled “critical” when the risk of supply shortage and their impacts on the economy are higher compared with most of the other raw materials. The report provides an analysis of 41 different minerals and metals, and concluded on a list of 14 critical raw materials. It also contained two sets of recommendations: recommendations for follow-up and further support, and policy-oriented recommendations to secure access to and material efficiency of raw materials.

### EUROFER

#### Introduction

Since the publication of the Communication on "The Raw Materials Initiative" (November 2008), EUROFER acknowledges and supports the efforts made by the Commission to establish an effective EU strategy for securing reliable and undistorted access to raw materials. EUROFER recommended EU decision makers to take this initiative as the basis for the development of an integrated strategy, underlining that priority had to be given to the establishment of a level playing field for access to metallurgical raw materials in the EU's trade policy as well as in the framework of the EU's external relations with third countries. To have a truly integrated policy approach in this domain, EU action needs to include the application of EU competition rules ensuring effective competition by acting against the excessive concentration and pricing power in the international raw materials markets, notably the seaborne iron ore market.

## Questions:

1. Do you have any comments on the methodological approach, including the scope, to determine criticality at EU level? If so, please specify.

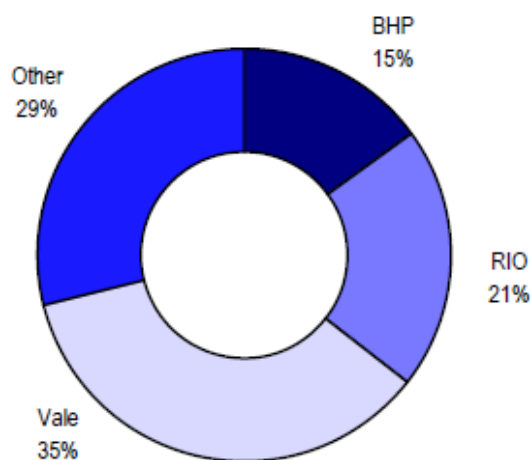
EUROFER is deeply concerned about the way the methodology developed for assessing criticality has been applied to the abovementioned 41 materials, notably in relation to **iron ore** (methodology considering 3 indicators including (i) the economic importance of the considered raw material, (ii) its supply risk, and (iii) an environmental country risk; either high supply risk or environmental country risk being sufficient to qualify a raw material for criticality, provided that its economic impact is above the threshold):

- The report strangely concludes that, notwithstanding its high economic importance, **iron ore** cannot be considered 'critical' because the supply risk, measured in terms of concentration of worldwide production, would be relatively low for this raw material. *However, the production of high quality iron ore critical for the European steel production on which European manufacturing competitiveness relies, is highly concentrated globally both in terms of production location and mining companies.*
- It was decided not to integrate the condition of 'company concentration' in assessing 'supply risk' because rather limited information on such concentration would be available and company concentration potentially shows advantages and disadvantages from the perspective of raw material access (for instance financial solidity versus market power). *However, excluding the condition of 'company concentration' because of limited availability of information cannot apply to iron ore (refer to DG Competition detailed geographic market and company analysis assessing the conformity of BHPB – Rio Tinto*

concentration proposals to EU competition rules). Moreover, the reference to the potential advantage/disadvantage of 'company concentration' as another reason to exclude this condition is difficult to understand if applied to iron ore: excessive global concentration has allowed the seaborne iron ore miners to take a disproportionate share of the value created in the steel value chain to a large extent paid for by European manufacturing industries and finally the European consumers.

As evidence, it should be acknowledged that the seaborne iron ore market is operated by a global oligopoly with only three large suppliers, Vale, Rio Tinto and BHP-Billiton controlling 70% of the market.

**Chart 1: Share of the seaborne market in 2008**



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Source: UNCTAD, Company Reports

While the current level of industry consolidation causes serious concerns with respect to the abuse of the dominant market position by the suppliers, any further consolidation as a result of the announced merger between the Australian iron ore operations of Rio Tinto and BHP-Billiton would result in a further reduction in

competition on volume and capacity expansion, quality and price of internationally traded iron ore. Due to very limited domestic resources, European steel mills depend heavily on the seaborne iron ore market for sourcing their iron needs.

<b>Seaborne Iron Ore Supplier</b>	<b>Million Tonnes</b>	<b>Market Shares</b>
RT	151.7	21.2%
BHPB	116.1	16.2%
Vale	229.0	32.0%
BHPB/RT/Vale	496.8	69.4%
Kumba	21.5	3.0%
LKAB	17.7	2.5%
SNIM	10.7	1.5%
QCM	10.3	1.4%
Others	159.2	22.2%

*Source: "The Iron Ore Market Service, Main Report 2007" CRU.*

In a market with only three – and possibly two – suppliers, incentives to compete are very much reduced. In a fully transparent worldwide oligopoly, characterized by strong barriers to entry and to expansion for competitors and inelastic/stable demand, coordinated market behavior is common practice.

The product markets affected are fairly transparent in most relevant dimensions. All relevant market players have information on each other's costs, production capacity, reserves, new projects, price negotiations, price settlements, prices, etc.

Volume and capacity expansion would significantly affect the anticipated supply and demand balance worldwide, which is not an economically rational strategy for the parties. It is in the interest of the three large suppliers to keep the seaborne iron ore market as tight as possible in order to keep upward pressure on prices and thus maximize profits without the need for significant capital expenditure. Even relatively modest price increases in the range of 5-10% bring

significant additional profits; they are obtained by delaying capacity expansion.

The current industry structure results in volume competition being restricted and it will be restricted further if the joint-venture between BHPB and RT will be approved by the competition authorities.

Moreover, BHP-Billiton, Rio Tinto and Vale are in the possession of the best iron ore reserves in the world; it is extremely unlikely that other reserves of the same quality and productivity will be found anywhere else anymore. The reason is that the quality of reserves is a question of geology and the surface geology of the earth is almost entirely known. The identification of the reserves in West Africa in 2003 was in all likelihood the last event where a major “tier one” reserve has been identified.

Quality competition determines the availability of and the ability to choose between different quality products: this is very essential for the steel industry. Steel mills' productivity critically depends on the specific blend being used. Thus, steel mills create value by purchasing and blending themselves different iron ore types in order to adapt specifically to the requirements of the different sinter plants and blast furnaces on a plant by plant basis. Given that in the steel industry fixed costs are high and margins are very thin, even relatively small changes in productivity have a large impact on profitability.

Past history has taught that the main iron ore suppliers try to optimize operational efficiency and profits by blending techniques. European steel mills believe that blending is likely to lead to an effective reduction of choice and quality. For example, in southern Brazil, before the consolidation of various suppliers into Vale's Southern System, there was a choice of approximately 13 different products.

The consolidation into Vale's Southern System reduced the options to only three products. The consequence for the European steel mills was that there were less products available, and those products were of a lower quality. In particular, products deteriorated in terms of increased silica, higher water content (which has environmental effects due to higher transportation costs per Fe%), lower throughput of blast furnaces – which leads to increase of CO2 emissions –, more slag generation, etc.

Furthermore, the apparent incoherence in the application of the criminality indicators downgrading iron ore in the report's "economic importance – supply risk" - matrix creates the impression of a selective approach biased towards 'high tech' metals, as illustrated by the DG enterprise web-page presenting the initiative of defining critical raw materials in terms of "high tech" metals... essential in the development of innovative, environmental technologies for boosting energy efficiency and reducing greenhouse gas emissions<sup>1</sup>.

Nevertheless EUROFER would like also to recall that the Raw Materials Initiative and its reference documents, such as the report on critical raw materials, should be aligned with the Communication from the Commission "Europe 2020: a strategy for smart, sustainable and inclusive growth<sup>2</sup>" that reads: *the Commission will draw up a framework for a modern industrial policy, to guide and help industry to become fit to meet these challenges, to promote the competitiveness of Europe's primary, manufacturing and service industries, ... The framework will address all elements of the increasingly international value chain from access to raw materials to after-sales service.*

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<sup>1</sup>[http://ec.europa.eu/enterprise/policies/raw-materials/critical/index\\_en.htm](http://ec.europa.eu/enterprise/policies/raw-materials/critical/index_en.htm)

<sup>2</sup> COM(2010) 2020 - "Communication from the Commission - Europe 2020: A strategy for smart, sustainable and inclusive growth"

Finally EUROFER believes that the approach undertaken in the report is therefore too narrow and theoretical, and does not capture the fundamental economic reality that should be addressed by the Commission. For this reason EUROFER urges the Commission to review the report and to consider Iron Ore as a valuable raw material whose criticality must be properly addressed.

**Specifically**, the assessment of criticality for iron ore must take into account:

- the huge degrees of concentration in supplies with 70% of trade in the hands of only 3 companies;
- the requirement of European industry for high quality and high concentrate, which limits supplies to Australia and Brazil notably.

2. Do you see any additional raw material that should be considered as critical? If so, please explain.

See above Question 1

3. Do you have any comments regarding the recommendations of the report? If so, please specify.

See above Question 1

5. The functioning of raw materials markets has not been dealt with. Do you think that further analysis of their functioning should be carried out? What actions should be proposed to increase their transparency?

See above Question 1

## POLICY AREA: TRADE

Major issues:

One pillar of the Raw Materials Initiative consists in developing a European external strategy in order to guarantee the sustainable supply of raw materials from global markets at undistorted conditions. In this, trade policy plays an important role. DG Trade has recently completed its 2009 [activity report](#) on raw materials, which summarizes the progress accomplished along the three axes of the trade raw materials strategy:

- Include, as appropriate, the relevant trade disciplines on sustainable supply of raw materials in bilateral and multilateral trade agreements,
- Identify illegitimate trade distortive measures taken by third countries and tackle them using all available instruments, including through bilateral consultations, the Market Access Partnership process or, if necessary, the WTO dispute settlement; while delimitating more clearly permissible exceptions for e.g. development purposes,
- Reach out to third countries to show that the question of sustainable raw materials supply is an issue relevant to all countries, developing or developed, resource-rich and resource-poor alike as the uncontrolled, unregulated multiplication of trade restrictions can lead to a generalized beggar-thy-neighbor policy detrimental to most countries; while recognizing the importance of respecting internationally agreed rules on the subject.

Questions:

7. Do you think that the importance of trade is adequately reflected in the work carried out so far in the Raw Materials Initiative?

For EUROFER, a priority is the establishment of a global level playing field for access to metallurgical raw materials, notably through the EU's trade policy supported by a strengthened European economic diplomacy organized in the External Action Service (see Introduction above). In general, EUROFER considers DG Trade's views and defined domains and types of actions to be comprehensive providing an adequate contribution in the lay- and roll out of the Raw Material Initiative.

8. Do you have any comment regarding the main findings of DG Trade activity report? What activities should be prioritized? Are there, in your opinion, additional activities not mentioned in the report which should be pursued in this strategy?

*Comments regarding the main findings of DG Trade activity:*

The DG Trade report puts significant emphasis and trust in the third pillar of outreach to third countries with the priority of raising awareness of the global dimension of the issue of access to raw materials at an international level. For international workshops and dialogue to have a maximum impact, third country reach out needs to be accompanied by the visible determination of the EU to systematically use where applicable, and further strengthen, the policy instruments which effectively contribute to the safeguarding of the cost competitiveness of the European steel industry, such as TDI adjustments of input cost distortions, GSP concession reconsiderations, inclusion and enforcement (dispute settlement) of bilateral and multilateral rules disciplining domestic trade and industrial policies in relation to raw materials, but also EU export surveillance and interim protective export safeguard action)

*Additional activities:*

In addition to assessing the economic impact of export restrictions (post factum), a proactive approach could include a systematic screening of those industries particularly exposed to international raw material markets, focusing on their development in key emerging economies (forecasting of regional capacity expansions and related raw materials consumption versus domestic supply outlook) as an economic indicator to evaluate the probability of seeing EU trading partners considering and finally taking raw material export restrictions to support their emerging domestic industries (for example, scrap for growing mini-mill steel capacities in Russia and China). Such

screening and evaluation could be released and presented for discussion at sectoral contact group and industrial policy dialogue meetings.

About us:

EUROFER, the European Confederation of Iron and Steel Industries, founded in 1976, and located in Brussels, represents 100% of steel production in the European Union. Its members are steel companies and national steel federations throughout the EU. The major steel companies and national steel federations in Switzerland and Turkey are associated members.

The objectives of EUROFER are the co-operation amongst the national federations and companies in all matters that contribute to the development of the European steel industry, and the representation of the common interests of its members vis-à-vis third parties, notably the European institutions and other international organisations.

The European steel industry is a world leader in its sector with a turnover of about EUR 190 billion and direct employment of 420 thousand highly skilled people, producing 200 million tonnes of steel per year. More than 500 steel production sites in 23 EU Member States provide direct and indirect employment and a living for millions of European citizens.